

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 NEA-10 IO-13 H-01 L-03 PA-01

PRS-01 SP-02 USIA-06 AID-05 EB-08 NSC-05 SS-15

STR-05 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /108 W

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8624

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USADB

FOR NAC AGENCIES

E.O. 11652: NA

TAGS: EAID, EFIN, RP

SUBJECT: PROPOSED ADB LOAN FOR FIFTH MINDANAO POWER PROJECT
(PHILIPPINES)

SUMMARY: ADB MANAGEMENT PROPOSES \$29.0 MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO PHILIPPINES TO FINANCE \$25.2 MILLION IN FOREX COST FOR CONSTRUCTION OF A 55 MW HYDROPOWER PLANT AND ASSOCIATED FACILITIES ON AGUS RIVER IN MINDANAO AS WELL AS \$3.8 MILLION FOR INTEREST AND OTHER CHARGES ON BANK LOAN DURING CONSTRUCTION. IN-HOUSE CAPABILITY WILL BE USED FOR DESIGN, ENGINEERING AND CONSTRUCTION AND WILL FOLLOW DESIGNS IN SIMILAR PLANTS ALONG AGUS RIVER. THIS LOAN IS FIFTH OF A SERIES OF SIX BANK LOANS PLANNED TO FULLY EXPLOIT AGUS RIVER RESOURCES. BASED ON EXPECTED TARIFF LEVELS IN 1982 ECONOMIC INTERNAL RATE OF RETURN IS ESTIMATED ALSO AT 15.8 PERCENT. USADB VIEWS PROJECT AS IMPORTANT LINK IN MINDANAO POWER SYSTEM, THEREFORE SUPPORTS PROPOSED LOAN AND REQUESTS FAVORABLE NAC ACTION. END SUMMARY.

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1. ADB DOC. R127-77 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES NOVEMBER 21. BOARD CONSIDERATION SCHEDULED DECEMBER 9, 1977.

2. ADB MANAGEMENT PROPOSING \$29.0 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO PHILIPPINES TO EXPAND

MINDANAO POWER SYSTEM ALONG AGUS RIVER AS PART OF GENERAL POWER PLANS FOR AREA. PROCEEDS WILL FINANCE FOREX COST OF 55 MW HYDRO-GENERATION PLANT AND ASSOCIATED FACILITIES. \$3.8 MILLION OF LOAN WILL FINANCE INTEREST AND OTHER CHARGES ON BANK LOAN DURING CONSTRUCTION. PROPOSED TERMS ARE 25 YEAR AMORTIZATION INCLUDING 5 YEAR GRACE PERIOD AND 8.3 PERCENT INTEREST. BORROWER AND EXECUTING AGENCY IS NATIONAL POWER CORPORATION (NPC) AND REPUBLIC OF PHILIPPINES IS GUARANTOR.

3. POWER IN PHILIPPINES IS GENERATED BY PRIVATELY-OWNED PUBLIC UTILITIES, COOPERATIVES AND NATIONAL POWER CORPORATION. BECAUSE OF ISLAND STRUCTURE OF COUNTRY A NUMBER OF DESPARATE POWER SYSTEMS HAVE BEEN ESTABLISHED OVER THE YEARS. IN OCTOBER 1977 GOVERNMENT ESTABLISHED DEPARTMENT OF ENERGY TO FURTHER RATIONALIZE COUNTRY'S TOTAL ENERGY RESOURCE DEVELOPMENT PROGRAM WITH DEPARTMENT. WITHIN DEPARTMENT NPC IS RESPONSIBLE FOR POWER GENERATION AND TRANSMISSION WHILE NATIONAL ELECTRIFICATION ADMINISTRATION (NEA) IS RESPONSIBLE FOR REORGANIZING DISTRIBUTION SECTOR. INSTALLED GENERATING CAPACITY IS CURRENTLY AT 2,950 MW OF WHICH 744 IS HYDRO AND 1,916 IS STEAM. PHILIPPINES CURRENTLY HAS 4,800 KM OF TRANSMISSION LINES WITH AN ADDITIONAL 1,250 KM UNDER CONSTRUCTION. OF TOTAL ENERGY SOLD, LUZON ACCOUNTS FOR ABOUT 76 PERCENT AND MINDANAO 23 PERCENT. POTENTIAL LIMITED OFFICIAL USE

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DEVELOPMENT FOR OVERALL POWER SECTOR OVER NEXT 20 YEARS IS GEOTHERMAL, HYDRO AND NUCLEAR POWER AS DEPENDENCE ON IMPORTED PETROLEUM FUELS FOR POWER GENERATION IS DEEMPHASIZED. MINDANAO'S LONG TERM INSTALLED CAPACITY IS ESTIMATED AT 2,430 MW OF WHICH TOTAL OF SEVEN PROJECTS ON AGUS RIVER WILL ACCOUNT FOR 900 MW. FORECASTS INDICATE THAT BY 1982 FIRM CAPACITY IN MINDANAO WILL BEGIN TO EXCEED AND BE MAINTAINED OVER PEAK LOAD, A SITUATION THAT IS NECESSARY IF INDUSTRY IS EXPECTED TO CONTINUE TO BE ATTRACTED TO REGION.

4. PROPOSED PROJECT IS FIFTH OF SERIES OF SEVEN POWER STATIONS ON AGUS RIVER OF WHICH BANK IS FINANCING SIX. IT IS DESIGNED TO UTILIZE A HEAD OF WATER ABOUT 41 METERS IN 2 KM LENGTH OF RIVER BETWEEN BANK FINANCED AGUS 4 AND AGUS 6 HYDRO-PLANTS. POWER STATION WILL HAVE TWO GENERATING UNITS 27.5 MW EACH WHICH WILL BE CONNECTED TO MAJOR SUB-STATIONS 1.5 KM AND 12 KM AWAY. INSTALLATION IS RUN-OF-RIVER WITHOUT STORAGE AND IS SIMILAR IN DESIGN AND CAPACITY TO AGUS NO. 4 PLANT, THUS REDUCING ANY ECOLOGICAL DISTURBANCES TO NEGLIGIBLE PROPORTIONS. HYDROLOGY FOR ENTIRE RIVER SYSTEM OF POWER PLANTS IS

WELL ESTABLISHED AND CALCULATED TO SUPPORT ALL PLANTS NOW EXISTING AND THOSE UNDER CONSTRUCTION OR IN DESIGN STAGES. WATER REQUIREMENTS FOR RUSTAN PULP AND PAPER MILL, CURRENTLY A USER OF RIVER WATER, IS CALCULATED AS NEGLIGIBLE AND WILL NOT AFFECT POWER POTENTIAL OF PROPOSED PLANTS. AS A SURFACE DEVELOPMENT PROJECT IT IS RELATIVELY FREE FROM SEISMOLOGICAL PHENOMENA THAN IS ITS COUNTERPART AT AGUS NO 4 WHICH IS LOCATED UNDERGROUND. NEVERTHELESS, IN INTEREST OF SAFETY, PROJECT IS DESIGNED FOR HORIZONTAL ACCELERATION THAT MAY BE CAUSED BY EARTHQUAKE, AS IN CASE OF AGUS NO 4. ROADS AND CONSTRUCTION SUPPORT INFRASTRUCTURE AT SITE ARE NOT REQUIRED THIS ASSURING RAPID IMPLEMENTATION ACTIONS. FURTHERMORE, APPROPRIATE SECURITY ARRANGEMENTS ON A LIMITED OFFICIAL USE

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PRIORITY BASIS HAVE BEEN AGREED TO BY GOVERNMENT.

5. TOTAL COST OF AGUS 5 IS \$50.8 MILLION COMPRISED OF \$25.3 MILLION IN FOREX FOR EQUIPMENT AND SERVICES, \$21.7 MILLION IN LOCAL CURRENCY AND AN ADDITIONAL \$3.8 MILLION IN FOREX FOR INTEREST AND OTHER CHARGES DURING CONSTRUCTION. TOTAL FOREX COST THEREFORE, IS \$29.1 MILLION, OF WHICH BANK IS FINANCING \$29.0 MILLION. NPC IS FINANCING CERTAIN PRELIMINARY

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INFO OCT-01 EA-10 ISO-00 NEA-10 IO-13 PA-01 PRS-01
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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8625

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FOR NAC AGENCIES

ENGINEERING SERVICES FROM ITS OWN RESOURCES IN THE AMOUNT OF \$130,000. COST INCLUDES 10 PERCENT CONTINGENCY FOR LOCAL CURRENCY REQUIREMENTS AND 15 PERCENT FOR FOREX COSTS. FOREX COSTS FOR CIVIL WORKS AND ELECTRO-MECHANICAL WORKS AND EQUIPMENT IS ABOUT \$18 MILLION, WHILE ENGINEERING SERVICES IS ONLY \$300,000 AS NPC WILL PROVIDE BULK OF SUCH SERVICES FROM IN-HOUSE SOURCES.

6. NPC WILL UTILIZE ITS OWN IN-HOUSE CAPABILITY FOR DESIGN, ENGINEERING AND CONSTRUCTION SUPERVISION OF PROJECT. NPC HAS PROGRAM UNDERWAY IN WHICH EXPERT CONSULTANTS ARE PLACED IN DESIGN ORGANIZATION TO TRAIN NPC ENGINEERS IN SPECIALIZED AREAS OF HYDRO-ELECTRIC ENGINEERING. OF TOTAL OF \$300,000 IN FOREX FOR ENGINEERING SERVICES, NPC PLANS TO USE \$170,000 FOR MODEL-TESTING AND OTHER SPECIALIZED LAB AND COMPUTER PROGRAMS AS MAY BE REQUIRED AND FOR SECOND OPINION AS MAY BE WARRANTED. BANK'S PROCEDURES FOR USES OF CONSULTANT'S LIMITED OFFICIAL USE

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WILL BE FOLLOWED IN SUCH CASES. REMAINING \$130,000 IS FOR ENGINEERING SERVICES ALREADY PROVIDED FOR PROJECT FEASIBILITY STUDY. PROCUREMENT OF EQUIPMENT AND SERVICES WILL BE CARRIED OUT IN CONFORMITY WITH BANK'S GUIDELINES FOR PROCUREMENT. CIVIL WORKS CONTRACTS ESTIMATED AT \$200,000 OR MORE AND SUPPLY CONTRACTS \$150,000 OR MORE WILL BE SUBJECT TO INTER-NATIONAL COMPETITIVE BIDDING.

7. EXECUTING AGENCY IS TO BE NPC, A WHOLLY OWNED GOVERNMENT STOCK CORPORATION ORIGINALLY ESTABLISHED IN 1936. IT IS AUTHORIZED AGENCY FOR CONSTRUCTION, OWNERSHIP AND OPERATION OF ALL ELECTRIC POWER GENERATING FACILITIES AND TRANSMISSION GRIDS IN PHILIPPINES. WHILE NPC'S CURRENT OPERATIONS ARE WELL ORGANIZED, IT HAS ENGAGED MANAGEMENT CONSULTANTS UNDER IBRD FINANCING TO REVIEW ITS ORGANIZATIONAL STRUCTURE IN VIEW OF ITS RAPID GROWTH IN RECENT YEARS AND IN FORESEEABLE FUTURE, WITH PLANNING AND REVIEW PROGRAM, DECENTRALIZATION OF AUTHORITY, TRAINING MIDDLE MANAGEMENT STAFF AND SYSTEMS PLANNING AND INVESTMENT PROGRAMMING. TARIFF STUDY OF POWER SECTOR PARTIALLY FINANCED BY IBRD IS ALSO UNDERWAY. NPC'S PERFORMANCE WITH FOUR OTHER MINDANAO POWER PROJECTS HAS BEEN SATISFACTORY WITH CERTAIN DELAYS ATTRIBUTABLE TO DIFFICULTIES CAUSED BY LOCAL PEACE AND ORDER CONDITIONS.

ITS CASH GENERATION HAS BEEN ADEQUATE TO MEET ITS NEEDS DURING PAST FIVE YEARS, DEBT SERVICING CAPABILITY HAS BEEN MAINTAINED AT ADEQUATE LEVEL AND DURING 5 YEAR PERIOD NPC FINANCED ABOUT 29 PERCENT OF ITS CAPITAL INVESTMENT. HOWEVER, THIS EXPECTED TO FALL TO 5 PERCENT ANNUALLY IN 1978-82 WITH IMPROVEMENT EXPECTED AFTER THAT. NPC HAS HAD PROBLEMS WITH ACCOUNTS RECEIVABLE THROUGH THE END OF 1974 WITH UP TO 6 MONTHS OF SALES EQUIVALENT, BUT REMEDIAL STEPS HAD REDUCED THIS TO 2.6 MONTHS LIMITED OFFICIAL USE

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EQUIVALENT BY JUNE 1977 OF WHICH 10 PERCENT ARE UNPAID BILLS BY GOVERNMENT ORGANIZATIONS. IT HAS AGREED TO SEEK REDRESS OF THIS PROBLEM WITH GOVERNMENT.

8. FINANCIAL INTERNAL RATE OF RETURN IS CALCULATED AT A SATISFACTORY 15.8 PERCENT AND ECONOMIC INTERNAL RATE OF RETURN ALSO CALCULATED 15.8 PERCENT, IS BASED ON EXPECTED TARIFF LEVELS IN 1982 WHEN FULL POWER OUTPUT OF PROJECT FIRST BECOMES AVAILABLE.

9. USADB COMMENT: AGUS RIVER POWER PLANTS WILL ACCOUNT FOR ABOUT 40 PERCENT OF MINDANAO'S TOTAL INSTALLED POWER CAPACITY OF EXISTING AND PROSPECTIVE MAJOR HYDRO-POWER PROJECTS IN MINDANAO. GOVERNMENT HAS BEEN AGGRESSIVE IN ALLOCATING RESOURCES TO EXPLOIT ONE OF ITS RICH HYDRO-RESOURCES IN REGION THAT HAS SUBSTANTIAL POTENTIAL FOR INDUSTRIAL AND AGRICULTURAL DEVELOPMENT. AGUS 5 IS ONE OF A SERIES OF SEVEN POWER PLANTS DESIGNED TO SYSTEMATICALLY EXPLOIT AGUS RIVER HYDRO-RESOURCES. PROPOSED PROJECT IS TECHNICALLY, FINANCIALLY AND ECONOMICALLY SOUND AND IS DESIGNED TO MEET INCREASING POWER DEMAND IN MINDANAO. NPC AS EXECUTING AGENCY HAS ADEQUATE STAFF, AND PLANNING AND OPERATIONS CAPABILITY TO HANDLE COUNTRY'S GROWING POWER NEEDS. ITS AGREEMENT TO TAKE ON EXPERT ASSISTANCE TO REORGANIZE IN VIEW OF ITS RAPIDLY ACCELERATING WORK LOAD IS A FAVORABLE SIGN OF ITS SOUND MANAGEMENT PRACTICES. USADB SUPPORTS PROPOSED LOAN AND RECOMMENDS FAVORABLE NAC ACTION.

10. AMEMBASSY MANILA COMMENTS BEING REQUESTED FOR NAC AGENCIES, PURSUANT TO STATE 119792 DATED JULY 3, 1972.
EDMOND

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Message Attributes

Automatic Decaptioning: X
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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
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TAGS: EAID, EFIN, RP, ADB
To: STATE
Type: TE
vdkgvkey: odbcr://SAS/SAS.dbo.SAS_Docs/3aef20fb-c188-dd11-92da-001cc4696bcc
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